

PERAC AUDIT REPORT



Gloucester Contributory Retirement System

JAN. 1, 2005 - DEC. 31, 2006



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PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

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August 14, 2007

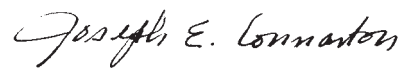
The Public Employee Retirement Administration Commission has completed an examination of the Gloucester Retirement System pursuant to G.L. c. 32, § 21. The examination covered the period from January 1, 2005 to December 31, 2006. This audit was conducted in accordance with the accounting and management standards established by the Public Employee Retirement Administration Commission, in regulation 840 CMR 25.00. Additionally, all supplementary regulations approved by PERAC and on file at PERAC are listed in this report.

In our opinion the financial records are being maintained and the management functions are being performed in conformity with the standards established by the Public Employee Retirement Administration Commission.

We commend the Gloucester Retirement Board for the exemplary operation of the system.

In closing, I acknowledge the work of examiners James Tivnan and Carol Niemira who conducted this examination, and express appreciation to the Board of Retirement and staff for their courtesy and cooperation.

Sincerely,



Joseph E. Connarton
Executive Director



STATEMENT OF LEDGER ASSETS AND LIABILITIES

AS OF DECEMBER 31,		
	2006	2005
Funds Available to Pay Benefits:		
Cash	\$8,430,337	\$1,513,626
Fixed Income Securities	0	0
Equities	0	6,675,743
Pooled Domestic Equity Funds	16,913,610	15,638,763
Pooled International Equity Funds	8,964,454	9,230,275
Pooled Global Equity Funds	7,088,397	0
Pooled Domestic Fixed Income Funds	11,663,270	16,337,180
Pooled Alternative Investment Funds	3,310,559	0
Pooled Real Estate Funds	2,751,230	3,227,108
Pooled Domestic Balanced Funds	0	7,434,237
Pooled International Balanced Funds	8,829,246	0
Interest Due and Accrued	4,910	1,145
Accounts Receivable	10,535	29,220
Accounts Payable	(46,018)	(23,277)
Total	<u>\$67,920,529</u>	<u>\$60,064,020</u>
Fund Balances:		
Annuity Savings Fund	\$20,193,202	\$19,108,260
Annuity Reserve Fund	6,617,617	6,614,208
Pension Fund	(320,647)	74,123
Military Service Fund	14,125	12,373
Expense Fund	0	0
Pension Reserve Fund	41,416,233	34,255,057
Total	<u>\$67,920,529</u>	<u>\$60,064,020</u>

STATEMENT OF CHANGES IN FUND BALANCES

	Annuity Savings Fund	Annuity Reserve Fund	Pension Fund	Military Service Fund	Expense Fund	Pension Reserve Fund	Total All Funds
Beginning Balance (2005)	18,225,579	6,407,993	459,376	6,098	0	30,576,412	55,675,458
Receipts	2,055,484	195,259	5,417,606	6,276	476,869	4,042,739	12,194,233
Inter Fund Transfers	(895,562)	895,562	364,094	0	0	(364,094)	0
Disbursements	(277,242)	(884,608)	(6,166,953)	0	(476,869)	0	(7,805,671)
Ending Balance (2005)	19,108,260	6,614,208	74,123	12,373	0	34,255,057	60,064,020
Receipts	2,164,689	195,854	5,495,383	5,075	571,753	7,822,413	16,255,167
Inter Fund Transfers	(719,215)	719,252	664,523	(3,323)	0	(661,237)	0
Disbursements	(360,532)	(911,697)	(6,554,676)	0	(571,753)	0	(8,398,658)
Ending Balance (2006)	<u>\$20,193,202</u>	<u>\$6,617,617</u>	<u>(\$320,647)</u>	<u>\$14,125</u>	<u>\$0</u>	<u>\$41,416,233</u>	<u>\$67,920,529</u>

STATEMENT OF RECEIPTS

FOR THE PERIOD ENDING DECEMBER 31,		
	2006	2005
Annuity Savings Fund:		
Members Deductions	\$1,899,275	\$1,778,337
Transfers from Other Systems	93,084	64,197
Member Make Up Payments and Re-deposits	53,899	92,186
Member Payments from Rollovers	6,743	15,764
Investment Income Credited to Member Accounts	<u>111,689</u>	<u>105,000</u>
Sub Total	<u>2,164,689</u>	<u>2,055,484</u>
Annuity Reserve Fund:		
Investment Income Credited to the Annuity Reserve Fund	<u>195,854</u>	<u>195,259</u>
Pension Fund:		
3 (8) (c) Reimbursements from Other Systems	49,862	23,351
Received from Commonwealth for COLA and Survivor Benefits	289,630	464,213
Pension Fund Appropriation	<u>5,155,891</u>	<u>4,930,042</u>
Sub Total	<u>5,495,383</u>	<u>5,417,606</u>
Military Service Fund:		
Contribution Received from Municipality on Account of Military Service	4,990	6,239
Investment Income Credited to the Military Service Fund	<u>84</u>	<u>37</u>
Sub Total	<u>5,075</u>	<u>6,276</u>
Expense Fund:		
Expense Fund Appropriation	0	0
Investment Income Credited to the Expense Fund	<u>571,753</u>	<u>476,869</u>
Sub Total	<u>571,753</u>	<u>476,869</u>
Pension Reserve Fund:		
Federal Grant Reimbursement	20,541	17,347
Pension Reserve Appropriation	0	0
Interest Not Refunded	2,353	3,231
Miscellaneous Income	3,144	7,893
Excess Investment Income	<u>7,796,375</u>	<u>4,014,268</u>
Sub Total	<u>7,822,413</u>	<u>4,042,739</u>
Total Receipts	<u>\$16,255,167</u>	<u>\$12,194,233</u>

STATEMENT OF DISBURSEMENTS

FOR THE PERIOD ENDING DECEMBER 31,		
	2006	2005
Annuity Savings Fund:		
Refunds to Members	\$103,967	\$121,168
Transfers to Other Systems	<u>256,565</u>	<u>156,074</u>
Sub Total	<u>360,532</u>	<u>277,242</u>
Annuity Reserve Fund:		
Annuities Paid	894,341	856,930
Option B Refunds	<u>17,356</u>	<u>27,677</u>
Sub Total	<u>911,697</u>	<u>884,608</u>
Pension Fund:		
Pensions Paid:		
Regular Pension Payments	4,173,895	4,066,957
Survivorship Payments	299,621	292,914
Ordinary Disability Payments	233,425	217,322
Accidental Disability Payments	1,382,273	1,178,582
Accidental Death Payments	222,232	214,282
Section 101 Benefits	89,099	76,796
3 (8) (c) Reimbursements to Other Systems	154,131	120,099
State Reimbursable COLA's Paid	0	0
Chapter 389 Beneficiary Increase Paid	<u>0</u>	<u>0</u>
Sub Total	<u>6,554,676</u>	<u>6,166,953</u>
Military Service Fund:		
Return to Municipality for Members Who Withdrew Their Funds	<u>0</u>	<u>0</u>
Expense Fund:		
Board Member Stipend	15,625	16,500
Salaries	86,759	80,730
Legal Expenses	7,088	5,001
Medical Expenses	0	622
Travel Expenses	3,129	2,840
Administrative Expenses	17,560	7,581
Furniture and Equipment	5,348	0
Management Fees	327,649	275,557
Custodial Fees	33,231	25,942
Consultant Fees	35,000	30,000
Rent Expenses	15,000	14,785
Service Contracts	20,680	12,886
Fiduciary Insurance	<u>4,684</u>	<u>4,425</u>
Sub Total	<u>571,753</u>	<u>476,869</u>
Total Disbursements	<u>\$8,398,658</u>	<u>\$7,805,671</u>

INVESTMENT INCOME

FOR THE PERIOD ENDING DECEMBER 31,		
	2006	2005
Investment Income Received From:		
Cash	\$25,310	\$11,225
Fixed Income	0	0
Equities	165,707	130,045
Pooled or Mutual Funds	1,140,916	739,007
Commission Recapture	2,439	1,898
Total Investment Income	<u>1,334,371</u>	<u>882,175</u>
Plus:		
Realized Gains	2,136,953	709,673
Unrealized Gains	8,289,437	7,440,581
Interest Due and Accrued - Current Year	4,910	1,145
Sub Total	<u>10,431,300</u>	<u>8,151,399</u>
Less:		
Realized Loss	(264,894)	(324,022)
Unrealized Loss	(2,823,876)	(3,917,539)
Interest Due and Accrued - Prior Year	(1,145)	(581)
Sub Total	<u>(3,089,915)</u>	<u>(4,242,142)</u>
Net Investment Income	<u>8,675,756</u>	<u>4,791,432</u>
Income Required:		
Annuity Savings Fund	111,689	105,000
Annuity Reserve Fund	195,854	195,259
Military Service Fund	84	37
Expense Fund	571,753	476,869
Total Income Required	<u>879,381</u>	<u>777,164</u>
Net Investment Income	<u>8,675,756</u>	<u>4,791,432</u>
Less: Total Income Required	<u>879,381</u>	<u>777,164</u>
Excess Income To The Pension Reserve Fund	<u>\$7,796,375</u>	<u>\$4,014,268</u>

SCHEDULE OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

AS OF DECEMBER 31, 2006			
	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS	PERCENTAGE ALLOWED
Cash	\$8,430,337	12.4%	
Pooled Domestic Equity Funds	16,913,610	24.9%	44%
Pooled International Equity Funds	8,964,454	13.2%	14%
Pooled Global Equity Funds	7,088,397	10.4%	Domestic equity portion 44%, international equity 14%
Pooled Domestic Fixed Income Funds	11,663,270	17.2%	35%
Pooled Alternative Investment Funds	3,310,559	4.9%	7%
Pooled Real Estate Funds	2,751,230	4.0%	10%
Pooled International Balanced Funds	8,829,246	13.0%	Equity portion 14%, fixed income 35%
Grand Total	<u>\$67,951,102</u>	<u>100.0%</u>	

For the year ending December 31, 2006, the rate of return for the investments of the Gloucester Retirement System was 14.54%. For the five-year period ending December 31, 2006, the rate of return for the investments of the Gloucester Retirement System averaged 8.95%. For the twenty-one-year period ending December 31, 2006, since PERAC began evaluating the returns of the retirement systems, the rate of return on the investments of the Gloucester Retirement System was 10.60%.

SUPPLEMENTARY INVESTMENT REGULATIONS

The Gloucester Retirement System submitted the following supplementary investment regulations, which were approved by PERAC on:

March 15, 2007

17.03

Notwithstanding the provisions of the Public Employee Retirement Administration Commission regulations, the Gloucester Retirement Board may invest funds of the Retirement System (the "System") in the fund known as the Institutional Retirement Trust (IRT) International Equity Trust (the "Fund"), and effective as of the date of the initial investment by the System of any of its assets in the Fund, while the assets of the System are so invested, the activities and investments of the Fund, directly or indirectly, shall be deemed to satisfy the prohibited transaction rules set forth in 840 CMR 16.00 et seq. and 840 CMR 17.03 to the extent such activities satisfy the prohibited transaction rules set forth in Section 406 of the U.S. Employee Retirement Income Security Act of 1974, as amended ("ERISA"), taking into account ERISA Section 408(b)(8) as well as other statutory exemptions under ERISA, and Prohibited Transaction Class Exemption 84-14, as amended, Prohibited Transaction Class Exemption 91-38, and other available class exemptions.

April 25, 2006

21.01(2)(3)(4)(5)

Notwithstanding the provisions of any statute or regulation to the contrary, including the provisions of 840 CMR 21.01(2)(3)(4) and (5), the Gloucester Retirement Board is hereby granted an exemption from restrictions on investment for the purposes of investing a portion of the System's assets in the PIMCO All Asset Fund.

Notwithstanding the provisions of any statute or regulation to the contrary, including the provisions of 840 CMR 21.01(2)(3)(4) and (5), the Gloucester Retirement Board is hereby granted an exemption from restrictions on investment for the purposes of investing a portion of the System's assets in the EB Daily Valued Global Alpha I Fund of Mellon Capital Management Corporation.

January 11, 1996

20.04(1)

United States based corporations and equities of foreign corporations.

20.07(5)

Equity investments shall be made only in securities listed on a United States stock exchange, traded over the counter in the United States, or listed and traded on a foreign exchange.

840 CMR 21.00: Prohibited Investments

(3) Futures Contracts other than as follows:

(a) Currency Futures, Calls and Forward Contracts may be written against securities in the international portfolio by an investment advisor registered under the Investment Act of 1940 and who has been granted a waiver from PERA for international investments.

(b) Currency Futures, Calls and Forward Contracts may be written against securities in the international portfolio to a maximum of fifty percent (50%) of the international portfolio's non-

SUPPLEMENTARY INVESTMENT REGULATIONS (Continued)

dollar holdings at market value. Speculative currency positions unrelated to underlying portfolio holdings are strictly prohibited.

March 31, 1994

16.02(3)

The board may incur expenses for investment advice or management of the funds of the system by a qualified investment manager and the board may incur expenses for consulting services. Expenses for investment management and consulting services may be charged against earned income from investment provided that the total of such expenses shall not exceed in any one year: (a) 1% of the value of the fund for the first \$5 million; and (b) 0.5% of the value of the fund in excess of \$5 million.

January 3, 1992

16.02(4)

The board may employ a custodian bank and as of January 1, 1991, may charge such expenses against earned income from investments provided that such expenses shall not exceed in any one-year .08% of the value of the fund.

NOTES TO FINANCIAL STATEMENTS

NOTE I – SUMMARY OF PLAN PROVISIONS

The plan is a contributory defined benefit plan covering all Gloucester Retirement System member unit employees deemed eligible by the retirement board, with the exception of school department employees who serve in a teaching capacity. The Teachers' Retirement Board administers the pensions of such school employees.

ADMINISTRATION

There are 106 contributory Retirement Systems for public employees in Massachusetts. Each system is governed by a retirement board, and all boards, although operating independently, are governed by Chapter 32 of the Massachusetts General Laws. This law in general provides uniform benefits, uniform contribution requirements, and a uniform accounting and funds structure for all systems.

PARTICIPATION

Participation is mandatory for all full-time employees. Eligibility with respect to part-time, provisional, temporary, seasonal, or intermittent employment is governed by regulations promulgated by the retirement board, and approved by PERAC. Membership is optional for certain elected officials.

There are 3 classes of membership in the Retirement System:

Group 1:

General employees, including clerical, administrative, technical, and all other employees not otherwise classified.

Group 2:

Certain specified hazardous duty positions.

Group 4:

Police officers, firefighters, and other specified hazardous positions.

NOTES TO FINANCIAL STATEMENTS (Continued)

MEMBER CONTRIBUTIONS

Member contributions vary depending on the most recent date of membership:

Prior to 1975:	5% of regular compensation
1975 - 1983:	7% of regular compensation
1984 to 6/30/96:	8% of regular compensation
7/1/96 to present:	9% of regular compensation
1979 to present:	an additional 2% of regular compensation in excess of \$30,000.

RATE OF INTEREST

Interest on regular deductions made after January 1, 1984 is a rate established by PERAC in consultation with the Commissioner of Banks. The rate is obtained from the average rates paid on individual savings accounts by a representative sample of at least 10 financial institutions.

RETIREMENT AGE

The mandatory retirement age for some Group 2 and Group 4 employees is age 65. Most Group 2 and Group 4 members may remain in service after reaching age 65. Group 4 members who are employed in certain public safety positions are required to retire at age 65. There is no mandatory retirement age for employees in Group 1.

SUPERANNUATION RETIREMENT

A member is eligible for a superannuation retirement allowance (service retirement) upon meeting the following conditions:

- completion of 20 years of service, or
- attainment of age 55 if hired prior to 1978, or if classified in Group 4, or
- attainment of age 55 with 10 years of service, if hired after 1978, and if classified in Group 1 or 2

NOTES TO FINANCIAL STATEMENTS (Continued)

AMOUNT OF BENEFIT

A member's annual allowance is determined by multiplying average salary by a benefit rate related to the member's age and job classification at retirement, and the resulting product by his creditable service. The amount determined by the benefit formula cannot exceed 80% of the member's highest three year average salary. For veterans as defined in G.L. c. 32, § 1, there is an additional benefit of \$15 per year for each year of creditable service, up to a maximum of \$300.

- Salary is defined as gross regular compensation.
- Average Salary is the average annual rate of regular compensation received during the 3 consecutive years that produce the highest average, or, if greater, during the last three years (whether or not consecutive) preceding retirement.
- The Benefit Rate varies with the member's retirement age, but the highest rate of 2.5% applies to Group 1 employees who retire at or after age 65, Group 2 employees who retire at or after age 60, and to Group 4 employees who retire at or after age 55. A .1% reduction is applied for each year of age under the maximum age for the member's group. For Group 2 employees who terminate from service under age 55, the benefit rate for a Group 1 employee shall be used.

DEFERRED VESTED BENEFIT

A participant who has completed 10 or more years of creditable service is eligible for a deferred vested retirement benefit. Elected officials and others who were hired prior to 1978 may be vested after 6 years in accordance with G.L. c. 32, § 10.

The participant's accrued benefit is payable commencing at age 55, or the completion of 20 years, or may be deferred until later at the participant's option.

WITHDRAWAL OF CONTRIBUTIONS

Member contributions may be withdrawn upon termination of employment. Employees who first become members on or after January 1, 1984, may receive only limited interest on their contributions if they voluntarily terminate their service. Those who leave service with less than 5 years receive no interest; those who leave service with greater than 5 but less than 10 years receive 50% of the interest credited.

NOTES TO FINANCIAL STATEMENTS (Continued)

DISABILITY RETIREMENT

The Massachusetts Retirement Plan provides 2 types of disability retirement benefits:

ORDINARY DISABILITY

Eligibility: Non-veterans who become totally and permanently disabled by reason of a non-job related condition with at least 10 years of creditable service (or 15 years creditable service in systems in which the local option contained in G.L. c. 32, § 6(1) has not been adopted).

Veterans with ten years of creditable service who become totally and permanently disabled by reason of a non-job related condition prior to reaching “maximum age”.

Retirement Allowance: Equal to the accrued superannuation retirement benefit as if the member was age 55. If the member is a veteran, the benefit is 50% of the member’s final rate of salary during the preceding 12 months, plus an annuity based upon accumulated member contributions plus credited interest. If the member is over age 55, he or she will receive not less than the superannuation allowance to which he or she is entitled.

ACCIDENTAL DISABILITY

Eligibility: Applies to members who become permanently and totally unable to perform the essential duties of the position as a result of a personal injury sustained or hazard undergone while in the performance of duties. There are no minimum age or service requirements.

Retirement Allowance: 72% of salary plus an annuity based on accumulated member contributions, with interest. This amount is not to exceed 100% of pay. For those who became members in service after January 1, 1988 or who have not been members in service continually since that date, the amount is limited to 75% of pay. There is an additional pension per child who is under 18 at the time of the member’s retirement, with no age limitation if the child is mentally or physically incapacitated from earning. The additional pension may continue up to age 22 for any child who is a full time student at an accredited educational institution.

NOTES TO FINANCIAL STATEMENTS (Continued)

ACCIDENTAL DEATH

Eligibility: Applies to members who die as a result of a work-related injury or if the member was retired for accidental disability and the death was the natural and proximate result of the injury or hazard undergone on account of which such member was retired.

Allowance: An immediate payment to a named beneficiary equal to the accumulated deductions at the time of death, plus a pension equal to 72% of current salary and payable to the surviving spouse, dependent children or the dependent parent, plus a supplement of \$312 per year, per child, payable to the spouse or legal guardian until all dependent children reach age 18 or 22 if a full time student, unless mentally or physically incapacitated.

The surviving spouse of a member of a police or fire department or any corrections officer who, under specific and limited circumstances detailed in the statute, suffers an accident and is killed or sustains injuries resulting in his death, may receive a pension equal to the maximum salary for the position held by the member upon his death.

In addition, an eligible family member may receive a one time payment of \$100,000.00 from the State Retirement Board.

DEATH AFTER ACCIDENTAL DISABILITY RETIREMENT

Effective November 7, 1996, Accidental Disability retirees were allowed to select Option C at retirement and provide a benefit for an eligible survivor. For Accidental Disability retirees prior to November 7, 1996, who could not select Option C, if the member's death is from a cause unrelated to the condition for which the member received accidental disability benefits, a surviving spouse will receive an annual allowance of \$6,000.

DEATH IN ACTIVE SERVICE

Allowance: An immediate allowance equal to that which would have been payable had the member retired and elected Option C on the day before his or her death. For death occurring prior to the member's superannuation retirement age, the age 55 benefit rate is used. The minimum annual allowance payable to the surviving spouse of a member in service who dies with at least two years of creditable service is \$3,000, provided that the member and the spouse were married for at least one year and living together on the member's date of death.

The surviving spouse of such a member in service receives an additional allowance equal to the sum of \$1,440 per year for the first child, and \$1,080 per year for each additional child until all dependent children reach age 18 or 22 if a full time student, unless mentally or physically incapacitated.

NOTES TO FINANCIAL STATEMENTS (Continued)

COST OF LIVING

If a system has accepted Chapter 17 of the Acts of 1997, and the Retirement Board votes to pay a cost of living increase for that year, the percentage is determined based on the increase in the Consumer Price Index used for indexing Social Security benefits, but cannot exceed 3.0%. Section 51 of Chapter 127 of the Acts of 1999, if accepted, allows boards to grant COLA increases greater than that determined by CPI but not to exceed 3.0%. The first \$12,000 of a retiree's total allowance is subject to a cost-of-living adjustment. The total Cost-of-Living adjustment for periods from 1981 through 1996 is paid for by the Commonwealth of Massachusetts.

METHODS OF PAYMENT

A member may elect to receive his or her retirement allowance in one of 3 forms of payment.

Option A: Total annual allowance, payable in monthly installments, commencing at retirement and terminating at the member's death.

Option B: A reduced annual allowance, payable in monthly installments, commencing at retirement and terminating at the death of the member, provided, however, that if the total amount of the annuity portion received by the member is less than the amount of his or her accumulated deductions, including interest, the difference or balance of his accumulated deductions will be paid in a lump sum to the retiree's beneficiary or beneficiaries of choice.

Option C: A reduced annual allowance, payable in monthly installments, commencing at retirement. At the death of the retired employee, 2/3 of the allowance is payable to the member's designated beneficiary (who may be the spouse, or former spouse who remains unmarried for a member whose retirement becomes effective on or after February 2, 1992, child, parent, sister, or brother of the employee) for the life of the beneficiary. For members who retired on or after January 12, 1988, if the beneficiary pre-deceases the retiree, the benefit payable increases (or "pops up") based on the factor used to determine the Option C benefit at retirement. For members who retired prior to January 12, 1988, if the System has accepted Section 288 of Chapter 194 of the Acts of 1998 and the beneficiary pre-deceases the retiree, the benefit payable "pops up" in the same fashion. The Option C became available to accidental disability retirees on November 7, 1996.

NOTES TO FINANCIAL STATEMENTS (Continued)

ALLOCATION OF PENSION COSTS

If a member's total creditable service was partly earned by employment in more than one retirement system, the cost of the "pension portion" is allocated between the different systems pro rata based on the member's service within each retirement system.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

The accounting records of the System are maintained on a calendar year basis in accordance with the standards and procedures established by the Public Employee Retirement Administration Commission.

The Annuity Savings Fund is the fund in which members' contributions are deposited. Voluntary contributions, re-deposits, and transfers to and from other systems, are also accounted for in this fund. Members' contributions to the fund earn interest at a rate determined by PERAC. Interest for some members who withdraw with less than ten years of service is transferred to the Pension Reserve Fund. Upon retirement, members' contributions and interest are transferred to the Annuity Reserve Fund. Dormant account balances must be transferred to the Pension Reserve Fund after a period of ten years of inactivity.

The Annuity Reserve Fund is the fund to which a member's account is transferred upon retirement from the Annuity Savings Fund and Special Military Service Credit Fund. The annuity portion of the retirement allowance is paid from this fund. Interest is credited monthly to this fund at the rate of 3% annually on the previous month's balance.

The Special Military Service Credit Fund contains contributions and interest for members while on a military leave for service in the Armed Forces who will receive creditable service for the period of that leave.

The Expense Fund contains amounts transferred from investment income for the purposes of administering the retirement system.

The Pension Fund contains the amounts appropriated by the governmental units as established by PERAC to pay the pension portion of each retirement allowance.

The Pension Reserve Fund contains amounts appropriated by the governmental units for the purposes of funding future retirement benefits. Any profit or loss realized on the sale or maturity of any investment or on the unrealized gain of a market valued investment as of the valuation date is credited to the Pension Reserve Fund. Additionally, any investment income in excess of the amount required to credit interest to the Annuity Savings Fund, Annuity Reserve Fund, and Special Military Service Credit Fund is credited to this Reserve account.

The Investment Income Account is credited with all income derived from interest and dividends of invested funds. At year-end the interest credited to the Annuity Savings Fund, Annuity Reserve Fund, Expense Fund, and Special Military Service Credit Fund is distributed from this account and the remaining balance is transferred to the Pension Reserve Fund.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS

The Gloucester Retirement System has submitted the following supplementary membership regulations, which were approved by PERAC on:

March 16, 2005

The Gloucester Retirement Board shall conduct a simultaneous election for the two elected members of the Board. Both terms of the elected members shall be for three years and expire on the same date. In conducting the election, the Board shall place all candidates who have been nominated in conformance with 840 CMR 7.04 on one ballot. All eligible candidates shall be listed on the ballot in an order determined by a random drawing of the names of the candidates. In the event that only two candidates have been nominated, the Board shall declare said candidates to be the elected members of the Board, no elections shall be held, and said candidates shall take office and serve in all respects as though he or she had been elected by election. If there are more than two candidates, an election shall be conducted and each member of or retired from the Gloucester Retirement Board shall be allowed to vote for not more than two candidates. Upon tabulation of the ballots, the two candidates who receive the most votes shall be declared the elected members of the Board.

January 2, 2001

In order to be eligible for membership in the Gloucester Contributory Retirement System, permanent part-time or permanent full-time employees must be hired to work at least twenty (20) hours per week in a calendar year. A permanent part-time or permanent full-time employee is defined as any employee who is hired to work at least twenty (20) hours per week in a calendar year, or if employed in more than one position, such that when the hours of employment are added together those hours shall at least equal 20 hours per week in a calendar year. Any additional time worked on a temporary or employee elected basis, such as additional shifts; filling in for vacation or sick time, do not count towards the twenty hour minimum requirement for membership.

September 27, 2000

Approval of supplementary forms of the Gloucester Retirement Board:

- Affidavit of Martial Status Upon Retirement
- Member's Notification of Rights of the Gloucester Retirement Board Under M.G.L. Chapter 32

April 23, 1997

- I. An eligible member may not receive additional creditable service until the member has paid into the annuity savings fund of the system the total amount required by chapter 71 of the acts of 1996, Veteran Buy-Back Law. This payment may be made "in one lump sum" or in installment payments. Installments may be spread evenly over a maximum period of five

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

years with a minimum bi-weekly payment of \$20.00. There will be no interest charge on any outstanding balance.

2. If a member has decided to purchase this additional creditable service and installments have already been paid, moneys are not refundable except upon the member's termination of service as provided in G.L. c. 32, § 10(4) and 11(1).
3. The total veteran's buy back payment must be paid in full prior to the member's effective date of retirement. Creditable service would be prorated based upon any unpaid balance.

December 17, 1996

To require the notarized signature of the spouse of a married member's election of retirement option.

April 12, 1994

Change our rule #7 (approved December 14, 1984) "Gloucester Housing Authority temporary full-time employees must wait six (6) months to be eligible for membership" to the following: All temporary full time employees who are scheduled to work at least twenty hours per week for the calendar period are eligible for membership.

Change rule #4 (approved December 14, 1984) "Civil Service provisional employees must wait six months to be eligible for membership, except those otherwise disqualified by law, all others, such as those employees who are permanent or those appointed by the Mayor or City Council are admitted immediately" to the following: Permanent provisional employees are eligible to enter the system at once.

A full year of creditable service for each school year employed for regularly employed full time school cafeteria employees shall be granted, subject to review at the time of retirement. Creditable service for part time employees shall be prorated as bears against full time service but in no event shall any employee working less than twenty hours per week be guaranteed creditable service.

December 14, 1984

1. Effective 8-12-80 all part-time employees who work at least twenty (20) hours per week within a calendar year must become members of the Gloucester Retirement System.
2. An employee who averages twenty (20) hours or more per week will be credited a proportionate share of a year's creditable service.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

3. Effective 8-12-80 Teacher's Aides or anybody doing work of a similar nature, will not be admitted as members in the pension system until they have completed six (6) months of employment.
4. Civil Service provisional employees must wait six (6) months to be eligible for membership, except those otherwise disqualified by law. All others such as those employees who are permanent or those appointed by the Mayor or City Council are admitted immediately. (Revised April 12, 1994)
5. Effective 8-12-80 a person whose sole service to the City of Gloucester is considered less than full time, shall be ineligible for membership in the pension system.
6. All medical and financial records pertaining to an employee in service or retired are not public records but are records of the retirement board.
7. Gloucester Housing Authority temporary full-time employees must wait six (6) months to be eligible for membership. (Revised April 12, 1994)
8. In order to insure the proper individual is receiving the benefits to which he/she is entitled, every retiree or beneficiary receiving a pension from the City of Gloucester is required to file his/her notarized signature with the Gloucester Retirement Board. Failure to return the specified card, properly filled out, within ninety (90) days of postmark, will result in the suspension of benefits.

October 24, 2002

Travel Regulation

The Board has adopted a Supplementary Travel Regulation under the provisions of G.L. c. 7, § 50 and G.L. c. 32, § 21(4). (Regulation available upon written request.)

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 4 - ADMINISTRATION OF THE SYSTEM

The System is administered by a five-person Board of Retirement consisting of the City Auditor who shall be a member ex-officio, a second member appointed by the governing authority, a third and fourth member who shall be elected by the members in or retired from the service of such system, and a fifth member appointed by the other four board members.

Ex-officio Member: Joseph Pratt

Appointed Member:	Edward Hardy	Term Expires:	Until successor is appointed
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Elected Member:	Douglas MacArthur, Chairman	Term Expires:	7/31/08
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Elected Member:	Linda Geary	Term Expires:	7/31/08
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Appointed Member:	Patricia Ivas	Term Expires:	1/5/09
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The Board members are required to meet at least once a month. The Board must keep a record of all of its proceedings. The Board must annually submit to the appropriate authority an estimate of the expenses of administration and cost of operation of the system. The board must annually file a financial statement of condition for the system with the Executive Director of PERAC.

The investment of the system's funds is the responsibility of the Board. All retirement allowances must be approved by the Retirement Board and are then submitted to the PERAC Actuary for verification prior to payment. All expenses incurred by the System must be approved by at least two members of the Board.

The following retirement board members and employees are bonded by an authorized agent representing a company licensed to do business in Massachusetts as follows:

Treasurer - Custodian:)	\$50,000,000 Fiduciary and
Ex-officio Member:)	\$1,000,000 Fidelity Policy
Elected Member:)	through MACRS (Travelers Casualty
Appointed Member:)	and Surety Co. of America, AIG,
Staff Employee:)	and Arch Insurance Co.)

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by Stone Consulting, Inc. as of January 1, 2006.

The actuarial liability for active members was	\$53,812,658
The actuarial liability for non-vested terminated members was	1,140,189
The actuarial liability for retired members was	<u>62,450,479</u>
The total actuarial liability was	117,403,326
System assets as of that date were	<u>58,165,437</u>
The unfunded actuarial liability was	<u>\$59,237,889</u>
 The ratio of system's assets to total actuarial liability was	 49.5%
As of that date the total covered employee payroll was	\$20,903,152

The normal cost for employees on that date was 8.6% of payroll

The normal cost for the employer was 5.3% of payroll

The principal actuarial assumptions used in the valuation are as follows:

Investment Return: 7.875% per annum

Rate of Salary Increase: 4.50% per annum

GASB STATEMENT NO. 25 DISCLOSURE INFORMATION AS OF

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Cov. Payroll ((b-a)/c)
1/1/2006	\$58,165,437	\$117,403,326	\$59,237,889	49.5%	\$20,903,152	283.4%
1/1/2004	\$52,051,078	\$105,751,987	\$53,700,909	49.2%	\$20,531,638	261.6%
1/1/2003	\$46,648,953	\$99,625,844	\$52,976,891	46.8%	\$20,984,801	252.5%
1/1/2001	\$48,732,849	\$81,303,049	\$32,570,200	59.9%	\$19,438,637	167.6%

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 6 - MEMBERSHIP EXHIBIT

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Retirement in Past Years										
Superannuation	16	21	11	6	10	15	18	14	11	10
Ordinary Disability	1	1	0	0	0	1	1	1	2	1
Accidental Disability	1	1	2	2	1	2	2	0	2	3
Total Retirements	18	23	13	8	11	18	21	15	15	14
Total Retirees, Beneficiaries and Survivors	395	400	404	402	400	402	404	407	409	407
Total Active Members	545	554	572	577	590	577	550	538	545	544
Pension Payments										
Superannuation	\$2,319,648	\$2,441,525	\$2,713,300	\$2,742,496	\$2,918,003	\$3,155,438	\$3,355,699	\$3,798,743	\$4,066,957	\$4,173,895
Survivor/Beneficiary	228,221	310,233	260,534	294,375	303,656	300,619	287,963	304,367	292,914	299,621
Payments										
Ordinary Disability	134,858	143,419	157,932	150,848	158,928	171,092	178,651	192,860	217,322	233,425
Accidental Disability	1,008,999	1,046,693	1,120,841	1,123,062	1,108,629	1,115,372	1,135,449	1,156,795	1,178,582	1,382,273
Other	268,745	274,815	410,268	444,339	449,338	425,353	405,720	417,764	411,177	465,462
Total Payments for Year	<u>\$3,960,471</u>	<u>\$4,216,685</u>	<u>\$4,662,875</u>	<u>\$4,755,120</u>	<u>\$4,938,554</u>	<u>\$5,167,874</u>	<u>\$5,363,482</u>	<u>\$5,870,529</u>	<u>\$6,166,953</u>	<u>\$6,554,676</u>

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